

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
FINANCIAL STATEMENTS  
JUNE 30, 2006

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## Independent Auditor's Report

To the Management  
Office of Auditor of Accounts  
State of Delaware

We have audited the accompanying financial statements of the General and Special Revenue Funds of the Office of Auditor of Accounts (Office) of the State of Delaware, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial statements of the Office and are not intended to present the financial position and the results of operations of the State of Delaware in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the General and Special Revenue Funds of the Office, as of June 30, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report (Cont'd.)

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2006, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*McBride, Shogan & Co*

Wilmington, Delaware  
September 25, 2006

STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General Fund	Special Revenue Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 54,874	\$ 2,552,979	\$ 2,607,853
Total assets	<u>\$ 54,874</u>	<u>\$ 2,552,979</u>	<u>\$ 2,607,853</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 29,809	\$ 14,705	\$ 44,514
Accrued payroll and related liabilities	<u>117,154</u>	<u>9,059</u>	<u>126,213</u>
Total liabilities	146,963	23,764	170,727
<b>FUND BALANCE</b>			
Reserve for encumbrances	29,809	111,447	141,256
Unreserved fund balance	<u>(121,898)</u>	<u>2,417,768</u>	<u>2,295,870</u>
Total fund balance	<u>(92,089)</u>	<u>2,529,215</u>	<u>2,437,126</u>
Total liabilities and fund balance	<u>\$ 54,874</u>	<u>\$ 2,552,979</u>	<u>\$ 2,607,853</u>

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Special Revenue Fund	Total
<b>REVENUES</b>			
State appropriations	\$ 2,867,400	\$ -	\$ 2,867,400
Overhead recapture	-	744,231	744,231
	<hr/>	<hr/>	<hr/>
Total revenues	2,867,400	744,231	3,611,631
<b>EXPENDITURES</b>			
Current expenditures:			
Administration	919,983	-	919,983
Financial and compliance	700,613	144,493	845,106
Contractual services	441,988	580,709	1,022,697
Investigations	613,502	-	613,502
Capital outlay	28,640	2,998	31,638
	<hr/>	<hr/>	<hr/>
Total expenditures	2,704,726	728,200	3,432,926
	<hr/>	<hr/>	<hr/>
Excess revenues over expenditures	162,674	16,031	178,705
<b>OTHER FINANCING USES</b>			
Transfer to Public Defender's Office	(124,000)	-	(124,000)
Transfer to State Treasurer's Office	(39,700)	-	(39,700)
Reverted to State general fund	(4,532)	-	(4,532)
	<hr/>	<hr/>	<hr/>
Total other financing uses	(168,232)	-	(168,232)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(5,558)	16,031	10,473
	<hr/>	<hr/>	<hr/>
Fund balance beginning of the year	(86,531)	2,513,184	2,426,653
	<hr/>	<hr/>	<hr/>
Fund balance end of the year	<u>\$ (92,089)</u>	<u>\$ 2,529,215</u>	<u>\$ 2,437,126</u>

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Office of Auditor of Accounts (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to state and local governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Office are described below.

**Reporting Entity.** The Office is a constitutional office of the State of Delaware (State). The duties and responsibilities of the Office are set forth in Title 29, Chapter 29 of the Delaware Code, and involve primarily the conduct of post audits (audits of fiscal records that immediately follow the fiscal year end of activity) of the financial transactions of all Delaware agencies including local school districts.

**Fund Financial Statements.** Financial statements are provided for the Office's accounts in the State's general fund and special fund. Both the general fund and the special fund are governmental funds. The accounts in the general fund are the Office's primary operating accounts. This fund accounts for all financial resources of the Office, except those required to be accounted for by State Legislature in the special fund. The special fund is reported as a special revenue fund. The special fund was set-up by the State's legislature and receives appropriations for six of the Office's employees. Receipts in the fund are accounted for as reduction in contractual services expense.

**Measurement Focus and Basis of Accounting.** The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Consistent with State policy, the Office considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded when payment is due.

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Encumbrances.** Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g. purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**Cash and cash equivalents.** Except for a checking account with a balance of \$2,000, the Office's cash represents pooled deposits held by the State Treasurer's Office.

**Inter-Agency Activity.** Amounts charged to agencies for certain audit costs are shown as overhead recapture in the Statement of Revenues, Expenditures and Changes in Fund Balance. The amount of receipts and receivables that represented overhead recapture for the year ended June 30, 2006 was \$744,231. Amounts outstanding for activity between the Office and other State agencies that are representative of external audit costs charged to the agency are recorded as Due from Other State Agencies. There were no amounts due to the Office at June 30, 2006.

**Fund Balance.** Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. At June 30, 2006, the Office has reservations of \$29,809 and \$111,447 in the general fund and special fund, respectively. The reservations were for encumbrances.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

At June 30, 2006 the Office has cash and equivalents of \$2,607,853. Except for a checking account with a balance of \$2,000, the personnel of the State Treasurer's Office in Dover, Delaware control these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the Office, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

The petty cash fund is in the custody of the Office's personnel. This \$2,000 deposit is held by one financial institution and is insured by the Federal Deposit Insurance Corporation.



STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006

**NOTE 3 - PENSION PLAN**

Office employees are employees of the State and are covered under the State Employees' Pension Plan. The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan. The State contribution was 15.02% of the employees' salary for 2006. The employees contribute 3.00% of salary in excess of \$6,000. Payments of pension costs of \$225,358 and \$27,422 for 2006 were made from the general fund and special revenue fund, respectively. An employee can vest pension rights after five consecutive years of service. Certain significant plan provisions are as follows:

- Early retirement:
  - 15 years with service - age of 55 (benefits are reduced by 0.2% each month under age 60)
  - 25 years of service – any age (reduce by 0.2%, each month short of 30 years)
- Service retirement:
  - 15 years of service – age 60
  - 30 years of service – any age
  - 5 years of service – age 62
- Disability retirement:
  - 5 years of service and proof of disability

The State Employees' Pension Plan is part of the Delaware Public Employees' Retirement System, which is a blended component unit of the State of Delaware. More information can be obtained from the Delaware Public Employees' Retirement System Comprehensive Annual Report. To obtain this report contact the Office of Pensions at McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Office does not anticipate losses from these transactions.

Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements in  
Accordance with Government Auditing Standards

To the Management  
Office of Auditor of Accounts  
State of Delaware

We have audited the financial statements of the Office of Auditor of Accounts (Office) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements in  
Accordance with Government Auditing Standards (Cont'd.)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Office's management, the Office of the Governor, the Office of the Controller General, the Office of the Attorney General, the Office of Budget and the Department of Finance, and is not intended to be used and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

*McBride, Shopa & Co*

Wilmington, Delaware  
September 25, 2006